



# **Michigan Public School Employees' Retirement System (MPERS)**

Bethany Wicksall, Deputy Director

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## **Briefing Topics**

- System Overview
- Pension Benefits
- Retiree Health Benefits
- Major Statutory Revisions

# System Overview

## **PA 300 of 1980 The Public School Employees Retirement Act**

MPSERS is a multi-employer system established in state statute, which determines all of the following:

- Pension
  - Pension system board creation, powers and duties,
  - Vesting in pension benefits
  - Employee and Employer contribution rates
  - Pension eligibility age and years of service
  - Calculation of service credit and purchase of service credit rules
  - Pension allowance calculations
- Retiree Health Care (Medical, Dental, Vision, and Hearing)
  - Vesting in retirement health care benefits
  - Employee and Employer contribution rates
  - Retiree health care premium share

## **PA 300 of 1980**

### **The Public School Employees Retirement Act**

The Act does not provide for the following:

- Retiree Health Care Benefit Co-Pays and Deductibles
  - Determined by the MPSERS Pension Board and administered by the Office of Retirement Services.
- Active Employee Health Care
  - Each local school district and ISD negotiates health care benefits for current employees.

## **MPSERS Basic Facts – FY 2014-15**

- Retirees and Beneficiaries Receiving Benefits: 207,651
- Current Active Employees: 194,957
- Retirees receiving Health benefits: 149,741
- Pension Plan Actuarial Value of Assets: \$41.0 billion
- Pension Unfunded Actuarial Accrued Liability (UAAL): \$26.7 billion
- Pension Actuarial Funded Ratio: 60.5%
- Other Postemployment Benefits (OPEB) Costs,  
i.e. Health benefits: \$854.4 million
- OPEB UAAL: \$9.3 billion
- OPEB Actuarial Funded Ratio: 27.51%

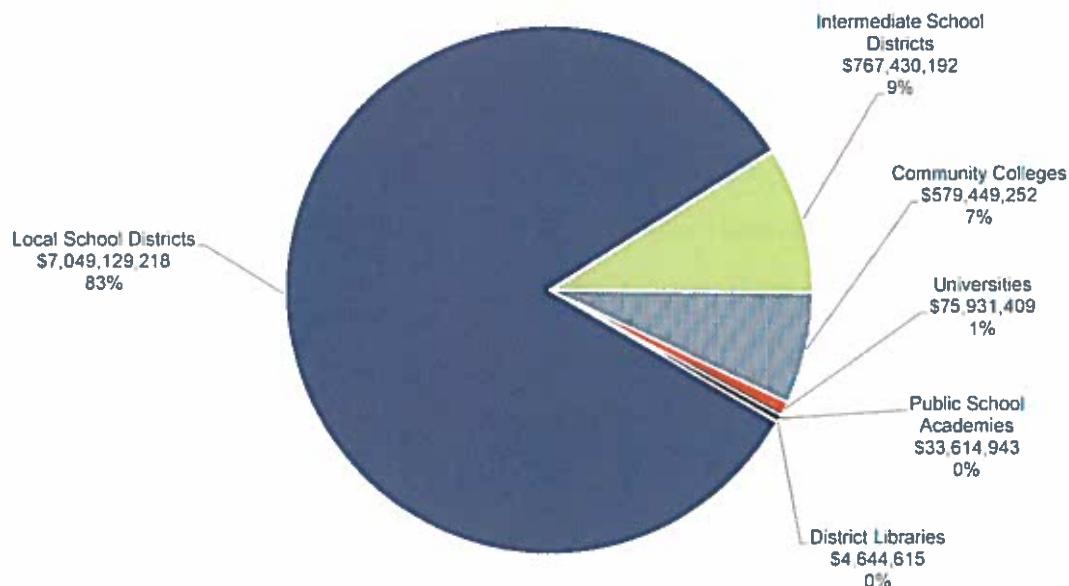
## MPSERS Employers

MPSERS membership includes employees of the following:

- **545 Public School Districts** – Traditional Local Districts
- **42 Public School Academies** (PSAs or Charter Schools) – Only covers employees hired directly by the PSA as opposed to a management company.
- **56 Intermediate School Districts**
- **28 Community Colleges** – Excluding certain employees eligible for the optional retirement plan.
- **10 District Libraries** – Only if the employee was hired prior to the library separating from the school district.
- **7 Universities** – Only employees hired prior to January 1, 1996. Includes Central Michigan, Western Michigan, Eastern Michigan, Northern Michigan, Ferris State, Lake Superior State, and Michigan Technological Universities.

## MPSERS Covered Payroll by Employer Type

83% of the \$8.5 billion covered payroll for FY 2015-16 is in local school districts.



# Pension Benefits

## Pension Plans

MPERS has 3 different pension plans and an optional 401k plan depending on an employee's hire date. The benefits and eligibility rules vary for each plan. The plans include the following:

- The Basic Plan: Prior to January 1, 1990
- The Member Investment Plan (MIP): Prior to June 30, 2010
- The Pension Plus Plan: On or After July 1, 2010
- Optional 401k or 457 Plan: On or After Sept. 4, 2012

## The Basic Plan

The Basic Plan includes only employees who were hired prior to **January 1, 1990** and who did not opt into the MIP when it was introduced in 1987.

### Key Basic Plan Characteristics:

- Began as a non-contributory plan, into which employees do not contribute, but beginning in 2012, they must contribute 4% or take a reduced pension multiplier.
- Members vest after 10 years of service.
- Normal Retirement eligibility = Age 55 with 30 years of service  
or Age 60 with 10 years of service
- Final Average Compensation (FAC) = Avg of 5 highest consecutive years
- Pension Allowance Formula =  $1.5\% \times \text{FAC} \times \text{Years of Service}$   
(or 1.25% if employee opts not to make pension contributions.)
- Cost of living adjustments = NONE

## The Member Investment Plan (MIP)

- Initially the plan began **January 1, 1987**, and members could choose to remain in the Basic Plan or change into the new MIP plan. The MIP plan had better benefits but required an employee contribution.
- Beginning **January 1, 1990** the Basic Plan was closed, and all new employees were automatically included in the MIP.
- The employee contribution has changed over time depending on when an employee was hired and the income level. The MIP plans and contribution rates prior to the 2012 statutory changes ranged from 3.0% to 6.4%.
- Since 2012 all MIP employees must contribute 7.0% or maintain their former contribution rate and take a reduced pension multiplier.

# The Member Investment Plan (MIP)

## Key MIP Characteristics (Fixed, Graded, and Plus Plans):

- The MIP Plan is a contributory plan, which means that the employees pay into the plan.
- Members vest after 10 years of service.
- Normal Retirement eligibility = Any Age with 30 years of service  
or Age 60 with 10 years of service
- Final Average Compensation (FAC) = Average of 3 highest years
- Pension Allowance Formula =  $1.5\% \times \text{FAC} \times \text{Years of Service}$   
(or 1.25% if employee opts not to make pension contributions.)
- Cost of living adjustments = 3% fixed, non-compounding

# The Pension Plus (Hybrid) Plan

The Pension Plus Plan is a hybrid plan including both a defined benefit pension component as well as a defined contribution 401k style component.

Includes employees hired after **July 1, 2010** unless they opt out.

## Key Pension Plus Plan Characteristics:

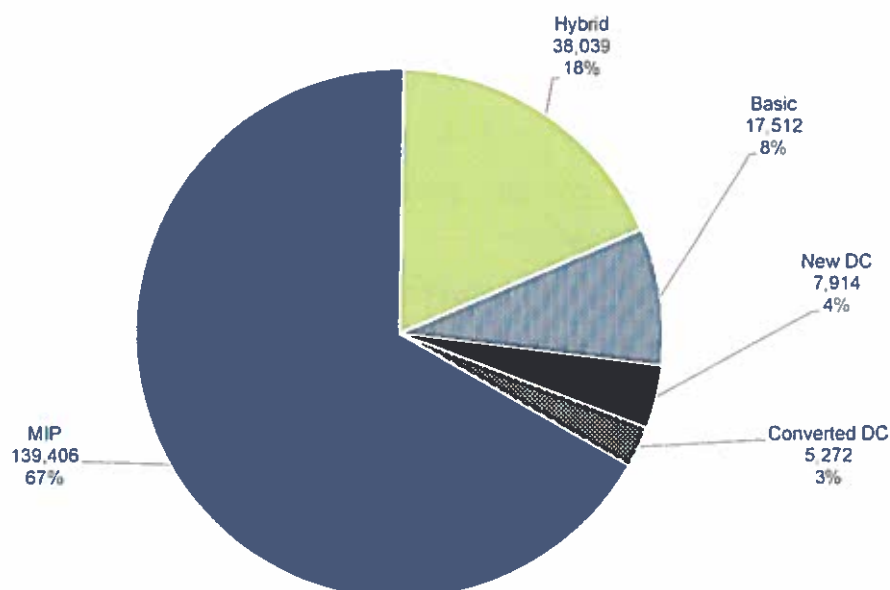
- The Pension Plan is a contributory plan with the following contribution rates:
  - 3% on first \$5,000 salary
  - \$150 plus 3.6% on salary between \$5,000 and \$15,000
  - \$510 plus 6.4% on salary in excess of \$15,000
- Members vest after 10 years of service.
- Normal Retirement eligibility = Age 60 with 10 years of service
- Final Average Compensation (FAC) = Average of 5 highest years
- Pension Allowance Formula =  $1.5\% \times \text{FAC} \times \text{Years of Service}$
- Cost of living adjustments = NONE

## The Optional 401k or 457 Plan

- Includes employees hired after **September 4, 2012** if they opt out of the Pension Plan and into this instead.
- Plan with an employer contribution equal to a 50% match of an employee's contribution of up to 6% of compensation (maximum employer contribution of 3%)
- Employee vests in employer contributions as follows:
  - 50% after 2 years
  - 75% after 3 years
  - 100% after 4 years

## MPSERS Membership by Plan

Two thirds of active employees are in the Member Investment Plan (MIP).





# Retiree Health Benefits

## Retiree Health Benefits

Retiree health benefits include medical, prescription drug, dental, vision, and hearing for employees hired before **September 4, 2012**. Active employees must pay 3% of compensation unless they opt out of retiree health benefits.

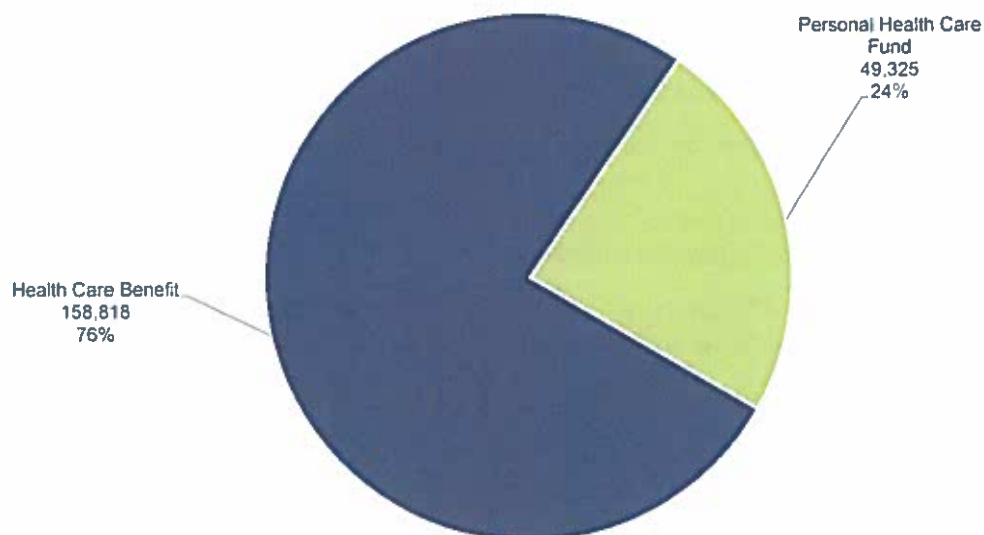
- For members hired **BEFORE July 1, 2008**, MPSERS pays as follows:
  - Fully vested upon eligibility for retirement, after a minimum of 10 years.
  - 80% of the premium for a retiree and dependents
  - However, for a retiree not yet eligible for Medicare, an amount equal to the cost chargeable to a Medicare recipient for Part B Medicare is deducted from a retiree's retirement allowance.
- For members hired **AFTER July 1, 2008**, but **BEFORE September 4, 2012** MPSERS pays a graded premium depending on the retiree's years of service:
  - Minimum 10 years of service required to vest in health benefits.
  - 30% of premium beginning with 10 years of service.
  - An additional 4% per year for each year after 10
  - Capped at 80% premium share.

## Retiree Health Benefits

- No retiree health insurance offered to new employees AFTER September 4, 2012. In lieu of retiree health care, they receive the following:
- Employer contributes 100% match of an employee's contribution up to a maximum of 2% of compensation into a 401(k) or 457 plan, (a personal health care fund).
- Employee vests in employer contributions as follows:
  - 50% after 2 years
  - 75% after 3 years
  - 100% after 4 years

## MPERS Membership by Health Benefit

Three quarters of active employees have a health care benefit rather than a personal health care fund.



# Major Statutory Revisions

## 2007 MPSERS Retirement Changes Public Acts 110 and 111 of 2007

- Increased the top rate of the employee contribution from 4.3% to 6.4% for employees hired after July 1, 2008 (MIP Plus).
- Created Graded Premiums for Retiree Health Care Benefits.
- Revised the Service Credit rules to :
  - Prohibit employees from purchasing service credit without having earned at least 2 years of service credit.
  - Prohibit the purchase of service credit from being used as a credit toward vesting in retiree health benefits.
  - Prohibits employees from earning retiree health benefits unless they had been employed and earned at least half a year of service credit during the last 2 fiscal years or at least 1/10 of a year of service credit during each of the last five fiscal years immediately preceding the effective date of the retirement.

## 2010 MPSERS Retirement Changes Public Act 75 of 2010

- Created the Pension Plus Plan, a hybrid pension/defined contribution plan, for all employees hired on or after **July 1, 2010** with following key characteristics:
  - Increased Minimum Retirement Age to 60.
  - Prohibited the purchase of service credit for retirement.
  - Eliminated cost of living adjustments (COLA).
  - Increased Final Average Compensation (FAC) period to 5 highest, consecutive years.
  - Decreased the Actuarial Assumed Rate of Return on Investments from 8% to 7%.
  - Included a 50% Employer Match on a 2% Employee Contribution into a 401k or 457 retirement account.
- Required an employee contribution of 3% into an irrevocable health care trust for current retiree health care costs. (Currently being litigated in *McMillan et al. v. MPSERS et al.* In the meantime, funds collected prior to **2012** revisions are in escrow.)
- Offered Early Retirement Incentive with increased pension multiplier from 1.5% to 1.6% for those already eligible and to 1.55% multiplier for those eligible under an 80 and out (age plus years of service).
- Required a retiree to forfeit pension benefits and health care during the period in which they return to work if they earn more than 1/3 of their final salary and are directly employed or more than \$0 if contracted independently or by a third-party.

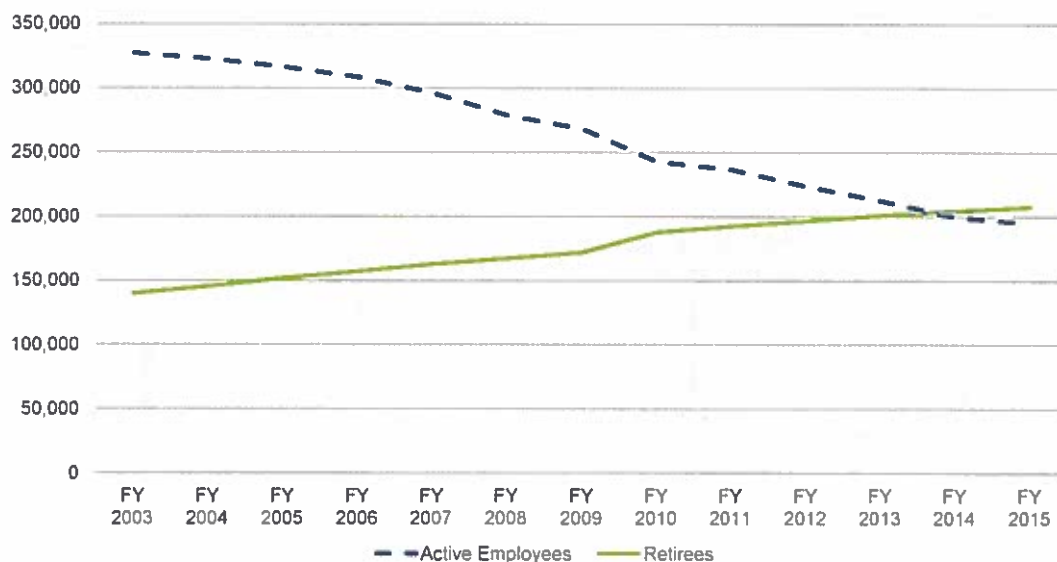
## 2012 MPSERS Retirement Changes Public Act 300 of 2012

- Began prefunding retiree health care benefits rather than using former "pay-as-you-go" funding method.
- Capped the employer's contribution rate for the unfunded liability at 20.96% of payroll (with an additional estimated annual normal rate of approximately 5%.
- Provided balance of funding necessary to meet the annual required contribution for unfunded liabilities using School Aid Funds.
- Increased employee contributions for pension (4% for Basic and 7% for MIP), with an option to opt out and choose either a reduced pension multiplier or a freeze in benefits with an employer 401k contribution going forward.
- Revised retiree health care 3% contribution to be used for individual benefits with an option to opt out of retiree health care benefits and choose an employer matching contribution of up to 2% of salary into a personal health care fund.
- Eliminated retiree health benefits for new employees after **September 4, 2012** and replaced them with an employer matching contribution of up to 2% of salary into a personal health care fund.
- Increased health care premiums for existing retirees (10% if over 65 by January 1, 2013; 20% if under 65 on January 1, 2013).
- Created an optional DC plan for new employees with a 50% employer match up to a total of 3% of salary.

## Recent Trends

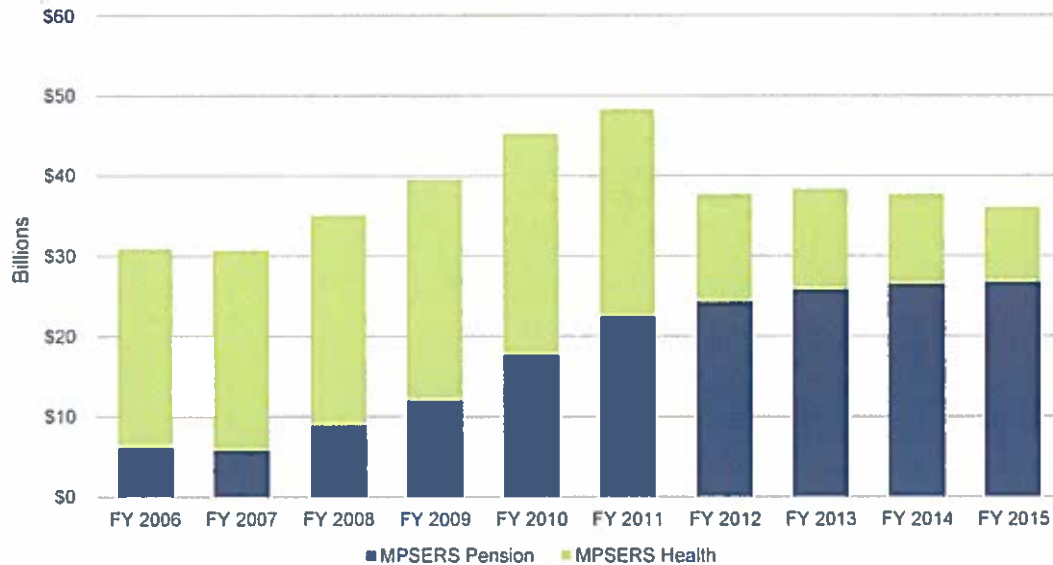
## MPSERS Retirees and Active Employees

The number of active employees in MPSERS has declined over 40% since its peak in FY 2002-03. In FY 2013-14 the number of retirees surpassed active employees.



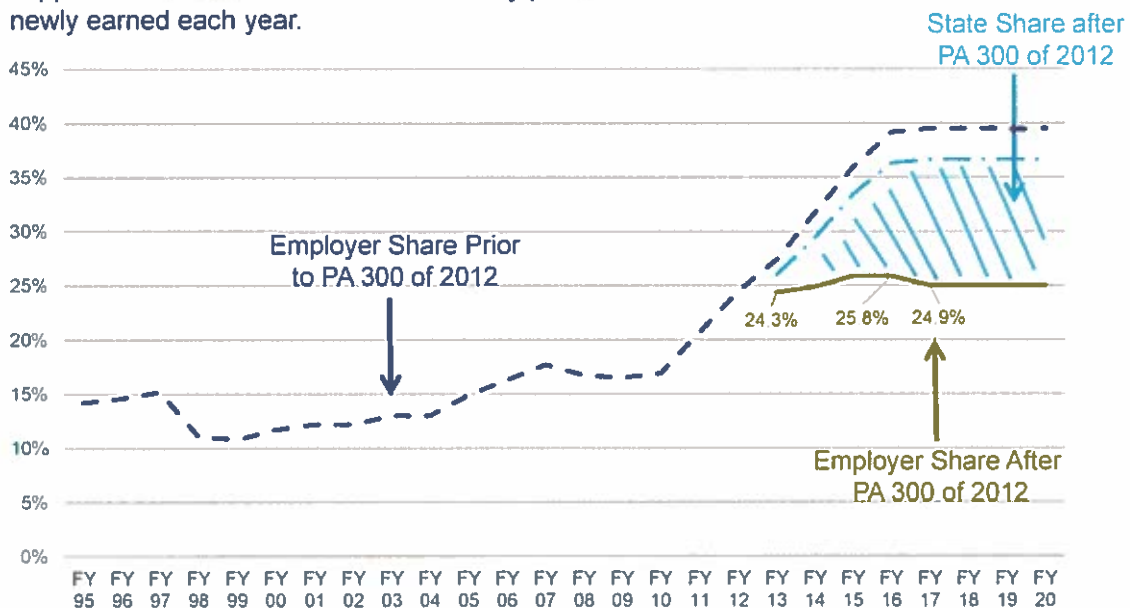
## MPERS Unfunded Liabilities

Total unfunded liabilities for the public school employee retirement system (MPERS) have declined by \$12 billion since FY 2010-11, due primarily to an accounting change related to the decision to begin prefunding retiree health benefits under PA 300.



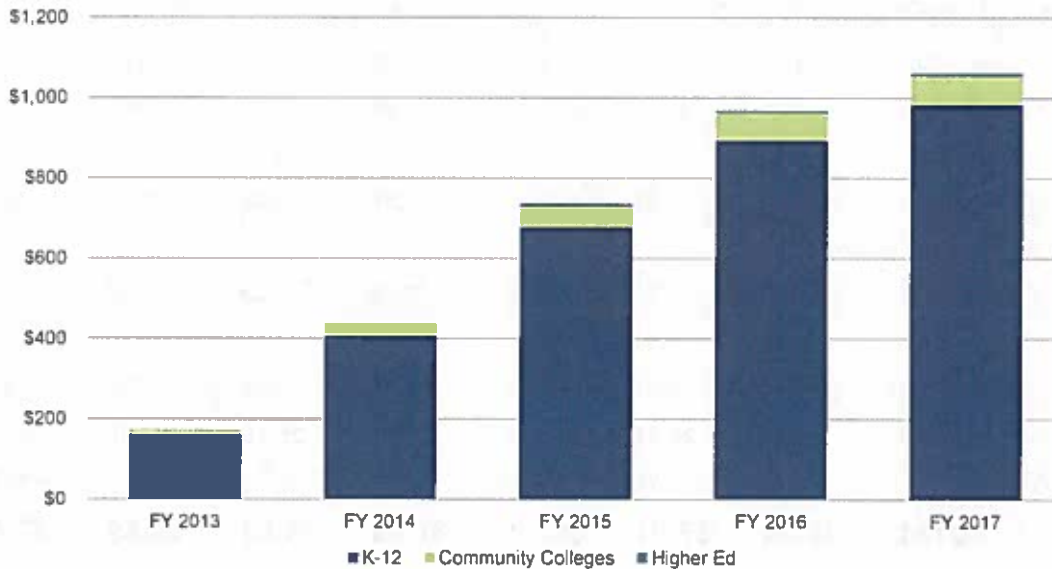
## MPERS Employer Contribution Rates History and Future Projections

The state portion of the MPERS contribution rate is \$894 million in FY 2015-16 and is increasing to \$984 million in FY 2016-17. The employer contribution rate is capped at 20.96% for the unfunded liability plus the normal costs for retirement benefits newly earned each year.



## MPSERS State Appropriations

For FY 2016-17, the state share of the unfunded liability totals almost \$1.1 billion.



## Contribution Rates

- Contribution rates are charged to all employers on an equal percentage of MPSERS payroll.
- Contribution rates are a combination of the following:
  - Normal Cost rate: Reflects the costs of the additional benefits accrued by an employee in a given year due to additional service time, calculated based on the system's actuarial assumptions.
  - Unfunded Actuarial Accrued Liability (UAAL) rate: Reflects the costs of previously earned benefits when the actuarial value of the plan assets fall short of the actuarial cost of providing those benefits.
  - Early Retirement Incentive (ERI) rate: Reflects the cost of the early retirement incentive offered in 2010, which were amortized over a 10-year period.
- The UAAL and ERI rates are applied equally across all MPSERS payroll, while the normal rate varies depending on the employee benefit group. A detailed breakdown of the contribution rates for FY 2016-17 follow on slide 31.

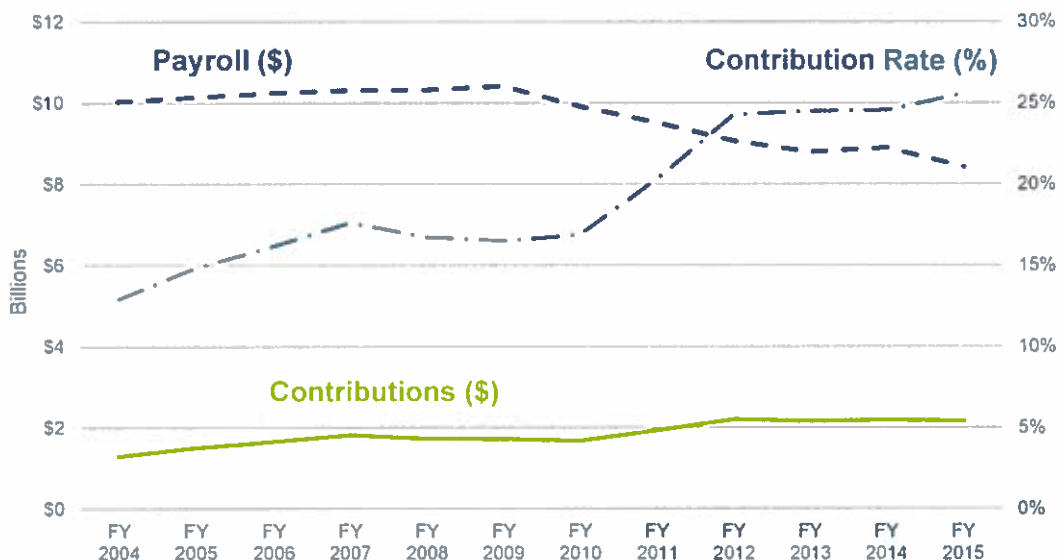
## FY 2016-17 Contribution Rates As a percent of Payroll

	Basic/MIP with Health	Pension Plus with Health	Pension Plus w/o Health	PP to DC w/o Health	Basic/MIP to DC with Health	Basic/MIP to DC w/o Health	Basic/MIP w/o Health
<b>Pension/DC Contributions*</b>							
Normal Cost	3.76	4.13	4.13	3.00	4.00	4.00	3.76
UAAL	13.91	13.91	13.91	13.91	13.91	13.91	13.91
2010 ERI	1.36	1.36	1.36	1.36	1.36	1.36	1.36
<b>Pension Total</b>	<b>19.03</b>	<b>19.40</b>	<b>19.40</b>	<b>18.27</b>	<b>19.27</b>	<b>19.27</b>	<b>19.03</b>
<b>Health Contributions*</b>							
Normal Cost	0.22	0.22	2.00	2.00	0.22	2.00	2.00
UAAL	5.69	5.69	5.69	5.69	5.69	5.69	5.69
<b>Health Total</b>	<b>5.91</b>	<b>5.91</b>	<b>7.69</b>	<b>7.69</b>	<b>5.91</b>	<b>7.69</b>	<b>7.69</b>
<b>Employer Total</b>	<b>24.94</b>	<b>25.31</b>	<b>27.09</b>	<b>25.96</b>	<b>25.18</b>	<b>26.96</b>	<b>26.72</b>
<b>State Share</b>	<b>11.70</b>	<b>11.70</b>	<b>11.70</b>	<b>11.70</b>	<b>11.70</b>	<b>11.70</b>	<b>11.70</b>
<b>TOTAL</b>	<b>36.64</b>	<b>37.01</b>	<b>38.79</b>	<b>37.66</b>	<b>36.88</b>	<b>38.66</b>	<b>38.42</b>

\* Assumes 100% participation in employee DC contributions and Personal Healthcare Fund contributions.

## MPERS Payroll and Employer Contribution History

The payroll contribution rate has doubled as annual required contributions have increased and the payroll base has dropped. About one third of the rate increase is due to declining payroll.





# Executive Recommendation - Assumed Rate of Return

## MPSERS Investment Rate of Return History

Long-term investment revenue makes up about 80% of actual benefits paid out. Actuarial estimates are based on an 8% assumed rate of return for the Basic and MIP plans, and a 7% assumed rate of return for the Hybrid plan. If actual rates exceed assumptions, it reduce unfunded liabilities, while underperforming compared to the assumed rate increases unfunded liabilities.

Year	Rate of Return		Year	Rate of Return
1997	23.6%		2007	17.2%
1998	8.3%		2008	(12.3%)
1999	16.1%		2009	(6.1%)
2000	14.5%		2010	8.8%
2001	(11.5%)		2011	6.6%
2002	(10.5%)		2012	13.5%
2003	14.8%		2013	12.5%
2004	12.6%		2014	15.6%
2005	12.8%		2015	2.6%
2006	12.8%		2016	7.6%

## Assumed Rate of Return and Unfunded Accrued Liabilities

- Actuaries use an assumed rate of return to estimate how a retirement system's assets will grow over time.
- If the assumed rate of return exceeds actual investment rates of return, assets don't grow as quickly as estimated, creating a larger unfunded accrued liability (UAL), or long-term shortfall in the system.
- An assumed rate of return that is too high understates a system's UAL, which in turn understates the annual required contributions necessary to fully fund the system.
- Lowering the assumed rate of return reduces long-term risk of UAL growth; however, it increases the UAL in the short-term as the actuarial estimate of system assets is reduced.
- Lowering the assumed rate of return increases both the UAL and Normal contribution rates, as the assumed value of assets already in the system is reduced as is the long-term value of the assets being deposited in the current year through normal rate contributions.

## Executive Recommendation – Assumed Rate of Return

**Proposed retirement changes included in the Executive recommendation for FY 2017-18 include:**

- \$100.0 million SAF to pay for the additional unfunded liability costs from lowering the assumed rate of return (AROR) for MPSERS from 8.0% to 7.5% to community colleges, universities, and school districts. (2-year phase-in)
- \$53.0 million SAF to pay the additional MPSEER normal cost to community colleges, universities, and school districts resulting from the change in AROR. (2-year phase-in)
- \$43.4 million GF/GP (\$83.7 million Gross) to pay the additional unfunded liability costs from lowering the assumed rate of return for state employees', state police, and judges' retirement systems from 8.0% to 7.5%, fully implemented in FY 18.

## Executive Recommendation – Assumed Rate of Return Costs

System	FY18 Baseline Reduction	FY 18 AROR Costs	FY 18 Net Change	FY 19 AROR Costs	FY 19* Net Change
<b>MPSERS</b>	<b>(\$126.3)</b>	<b>\$153.0</b>	<b>\$26.7</b>	<b>\$306.0</b>	<b>\$153.0</b>
State Employees (SERS)	(\$111.0)	\$83.7	(\$27.3)	\$83.7	--
State Police (SPRS)	--	\$9.0	\$9.0	\$9.0	--
Judges (JRS)	--	\$1.0	\$1.0	\$1.0	--
Military	--	\$0.2	\$0.2	\$0.2	--
<b>TOTAL</b>	<b>(\$237.3)</b>	<b>\$246.9</b>	<b>9.6</b>	<b>\$399.9</b>	<b>\$153.0</b>

**Notes:**

1. Baseline reductions for both MPSERS and SERS for FY 18 include better retiree health care cost experience and recent investment returns that exceeded the assumed rate. The SERS baseline costs are also reduced due to the expiration of \$78 million in annual payments required to fund the 2010 early retirement incentives.

2. FY 19 costs may change as the anticipated actuarial baseline adjustments are not yet available.

## For more information about MPSERS:

### HFA Resources

<http://www.house.mi.gov/hfa/Retirement.asp>

### Contact Information

Bethany Wicksall

Deputy Director

[bwicksall@house.mi.gov](mailto:bwicksall@house.mi.gov)

(517) 373-8080

